



Republic of Malawi

SPEECH BY

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**ECONOMICS ASSOCIATION OF MALAWI ANNUAL
CONFERENCE**

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AT

SUN & SAND, MANGOCHI

- Dr Wilson Banda, Governor of the Reserve Bank, and Chairperson of the Board of Trustees for the Economics Association of Malawi
- Mr Hugh Riddell, World Bank Country Manager and all staff from the World Bank
- Dr. Farayi Gwenhamo, IMF Resident Representative, and all staff from IMF
- Mr. Shigeki Komatsubara, UNDP Resident Representative
- The UNFPA Deputy Resident Representative, Mr. Masaki Watabe;
- Prof Winford Masanjala, Secretary for Economic Planning & Development and Public Sector Reforms

- Dr. Thomas Munthali, The Director General of the National Planning Commission;
- Mrs. Lauryn Nyasulu President of ECAMA, and all ECAMA Executive members
- Chief Executive Officers of Parastatals and Private Sector Companies,
- Members of Academia, and Participants from Local and International NGOs
- Members of the Fourth Estate
- Ladies and Gentlemen.

It is my singular honour to preside over the opening of the 2020 Economics Association of Malawi (ECAMA) Annual Conference. Allow me to welcome all of you, to this important gathering which has been

organized around a very important theme:
***Going Beyond Macroeconomic
Stabilization - The Need for Building
Resilience to External Shocks.***

I understand that this year's Annual Conference places emphasis on going beyond macroeconomic stability to explore strategies to improve Malawi's capacity to respond to, and recover from, shocks; and return on the path of inclusive and sustainable development. This is of particular relevance to our economy, especially in this era of COVID-19.

Distinguished participants, Ladies and Gentlemen, I will proceed in three steps. First I will comment on the socio-economic impact of COVID-19 then discuss some imperatives for building a resilient economy. Finally I will outline some Government initiatives and Policies that

will contribute towards economic shock-proofing and resilience.

A. COVID-19 and its Economy-wide Impacts

Like any epidemic or pandemic, COVID-19 of necessity has epidemiological, demographic as well as socio-economic impacts. I don't intend to dwell much on the first two elements but allow me to make an observation on the epidemiological dimensions of COVID-19.

COVID-19 has exposed our deficits in epidemiological modelling. When COVID-19 was first registered in Malawi, Government predicted a more devastating epidemic that would overwhelm the nation's health system. The Kuunika epidemiological model used by the Ministry of Health suggested that if

unmitigated, over 85 percent of Malawians could become infected over a one year period. Of those infected about 483 000 would require hospitalization, 85 000 would need critical care and up to 50 000 could die directly from COVID-19.

In contrast, a model by the World Health Organization projected a less virulent pandemic with much lower transmissibility. It was projected that 3.4 million cases would be registered and 2,213 would result in deaths if the pandemic was left unmitigated.

But the reality has turned out to be very different. As of 17th November, Malawi had 5,971 confirmed cases, and 185 deaths. This calls for better epidemiological modelling and deeper understanding of the dynamics of the pandemic.

Socio-economic Impact of COVID-19

The mild epidemiological impacts of COVID-19 notwithstanding, the socio-economic impacts of COVID-19 have been devastating.

The disruptive effect of the pandemic was demonstrated by differences in urban citizens' response to the abortive lock-down.

On the one hand, in the run up to the abortive lock-down, urban-based wage employees who make up Malawi's emerging middle class engaged in panic buying, causing temporary shortages of some goods in supermarkets and also resulting in profiteering and price gauging by suppliers of Personal and protective equipment (PPE)

In contrast, low-income groups, especially vendors, daily wage and piece (ganyu) workers that eke out a living in the informal sector, came out in droves to demonstrate against the proposed COVID measures, especially closure of markets and the lack of cushion against the measures. In other words, COVID-19 has had differentiated impact based on socio-economic class.

Distinguished Ladies and Gentlemen, informality pervades urban life in Malawi. The micro, small and medium- enterprise sector provides livelihoods platform to 91% of businesses operate and employs more people than the formal sector. Similarly, while informal settlements account for just 12 per cent of urban land area, urban informal settlements host an estimated 76 per cent of the urban population.

It is in recognition of this reality, Government with financial support from some development partners, is in the final stages of enumeration for an Urban Social Cash transfer that will cushion these peri-urban poverty hotspots

Macroeconomic Impacts of COVID

COVID-19 has had devastating impact on the macroeconomy. Foreign and domestic responses to COVID-19 have negatively affected Malawi's external sector to the detriment of Malawi's balance of payment position. Global lock downs and travel restrictions resulted in an immediate fall in inbound goods and passenger traffic and decline in demand for intermediate and capital goods.

In turn, the external effects of COVID-19 have transmitted to the fiscal sector by simultaneously reducing revenues and increasing expenditures, and thereby increasing the fiscal deficit.

In the real sector, COVID-19 has uneven impacts across sectors. Before COVID-19 set in, projections from Business Interviews conducted in February 2020 suggested that in 2020 the Malawi economy would grow by 5.5 percent. After COVID set in, revised estimates done in April 2020 revised our growth prospects downwards to 1.9 percent. Now most recent business interviews have further lowered the GDP growth estimates for 2020 to 1.2 percent.

At the sectoral level, international and domestic travel restrictions, suspension of formal meetings, gatherings and conferences have particularly decimated the travel and hospitality industry.

Accommodation and food services have been the worst hit - shrinking by 26.7 percent, followed by the Transport and Storage sector which shrunk by 10.8 percent, and the Education sector which is projected to shrink by 6.9 percent.

B. Imperatives for Building Resilience to Shock

Now allow me to reflect on government initiatives that seek to build a more resilient economy.

Distinguished Participants, Ladies and Gentlemen,

COVID-19 is the shock of this season. Hurricane Idai and Kenneth were shocks of two seasons ago. Indeed, the historic record is replete with instances that exemplify Malawi's vulnerability to shocks. Broadly speaking, there are two sources of this vulnerability: structural and exogenous.

Malawi is structurally vulnerable to shocks because the structure of production renders it so. First, our over-reliance on low-productivity rain-fed smallholder agriculture renders the economy vulnerable to extreme weather events. For the past five decades, Malawi has been characterized by volatile and episodic growth due to volatility in agricultural output.

Malawi also has vulnerabilities on the external front. A narrow and undiversified export basket, coupled with an import appetite that is growing in excess of the country's export capacity, has resulted in growing trade deficit, put pressure on the exchange rate and heightened Malawi's vulnerabilities to external shocks like international oil prices movements and fall in commodity prices.

Unfortunately, on the fiscal front, Government is equally vulnerable and lacks the capacity to respond to shocks effectively. Perennial recourse to deficit-financing of the fiscal budget has meant that Government consistently runs a budget deficit, adds to the debt stock and hence has no fiscal shock absorbers.

Given these vulnerabilities, I want to submit, Ladies and Gentlemen, that for Malawi to embark on inclusive and

sustainable growth there are three imperatives that we must address. These are the Growth Imperative; the Transformational imperative and the Institutional Imperative.

The Growth imperative

At the very minimum Economic Development requires economic growth.

The question that Malawians should answer is “if Malawi’s is to achieve resilient and sustainable growth, where will that growth come from?” In other words, what are Malawi’s sources of sustainable growth?

Malawi has long relied on agriculture and the nation’s growth fortunes rise and fall with agricultural growth. To the extent that agricultural growth is not climate-proofed and volatile, Malawi’s growth remains

vulnerable and economic growth is hard to come by.

But, as I argue shortly, the Malawi that we want is and should be premised on our cultivating and nurturing new sources of growth.

The Transformational imperative

Distinguished Participants, Ladies and Gentlemen

I further submit that Development requires transformation. In fact development is transformation. As such, in the medium to long term, the structure of the economy and the composition of output need to change. And here the question that we must address ourselves is, “into what

should Malawi transform?” In other words, what should Malawi’s future sources of growth be?

Achieving transformation is hard because it requires both structural change as well change of mindset. Malawians have always taken a deterministic view of the economy.

We revel in the fact that Malawi is an agro-based economy and we do little to alter this reality. Even our fiscal allocations testify to this agro-bias and mindset.

The Institutional imperative

Ladies and Gentlemen,

Apart from geographical endowments and economic policies, Transformation is also a function of institutions and governance structures.

The question we must answer is “What elements of our mindset should be retained or changed in order to transform ourselves into our desired developmental state?”

Here I want to submit that the institutional imperative requires a commitment to such dimensions as Control of Corruption; abiding by the Rule of Law; undertaking public sector reforms to ensure effective public service delivery; guaranteeing Political Rights and Civil Liberties; and assuring Access to, and Freedom of, Information.

It also requires that the state will assure economic rights. We commit to have a fiscal Policy that does not reduce the net worth of the state; and a monetary policy

that ensures internal and external balance. We also need to uprate the quality of our Regulatory institutions to ease the cost of doing business; a trade policy regime that is predictable and minimizes bureaucracy in Business to Government interactions.

We are also need a framework that resolves major business constraints especially issues of Land Rights and Access to Credit.

So what is Government doing about it?

Let me end by highlighting some initiatives that we believe will put the economy on a more sure footing as we explore more permanent structural change.

Strategies for restoring Economic Growth

1. government is committed to resolving infrastructure deficits in the shortest period. Malawi's development

challenges, to a large extent, emanate from lack or underdeveloped infrastructure. These infrastructural deficits can be quickly addressed by access to huge amounts of money under long-term financial arrangements.

To these ends Government is implementing a two-pronged strategy. First, Government will be issuing a local currency Development bond to clear the backlog of development projects in the PSIP and to finance newer strategic development projects that cannot be funded through the budget.

Second, Malawi is exploring the scope for issuing a foreign currency denominated development bond (or Euro-bond). Government has therefore, resolved to subject itself to Sovereign Credit Rating. Government has established an inter-agency Committee to initiate preparations

for engaging in this sovereign rating process. A favourable rating will enable Malawi and its companies to raise cheaper capital on the international financial market as well as send positive signals to foreign direct investors.

Projects to be funded will be chosen based on a number of factors including: (a) the potential to reduce government expenditure or generate revenues in the short to medium term; (b) the degree of back-ward and forward linkages or (c) big-push economic impact in terms of employment creation and growth enabling; and (d) readiness for implementation.

2. We need to rejuvenate the Private Sector by clearing arrears to the private sector. Public sector payment arrears known to Treasury are roughly about K250 billion. These arrears emanate from unpaid

water bills by Ministries Departments Agencies, compensations arising from court cases, unpaid roads construction works and other supplier who provided goods and services to Government. Although Government does not have resources for a post-COVID stimulus package, this administration recognizes that we can and should rejuvenate the economy through the private sector by clearing arrears. This injection will both relieve liquidity constraints that companies are facing and also jump-start the economy.

3. We need to arrest growth in public debt stock. As intimated in the President's SONA, Malawi's total public debt stands in excess of MK4.1 trillion, the majority of which (57.3 percent) is domestic debt.

Government will, therefore, create a debt-retirement fund. This requires us to

introduce a levy on some products with inelastic demand for a defined time period. Proceeds from the levy will be ring-fenced and entirely used to retire public debt until debt levels subside to within sustainable levels. It is envisaged that in time, once the debt is retired, the fund will morph into the Malawi Sovereign Wealth Fund which will support worthwhile economic activities.

4. We need to eliminate fiscal pressures arising from State Owned Enterprises. A number of State Owned Enterprises (SOE) have over the years not performed satisfactorily to sustain their operations financially. Even SOEs with commercial orientation are heavily reliant on Government support in form of guarantees and on-lending instruments. These have resulted in high and growing contingent liabilities on the Government.

5. We need to broaden the tax-base by formalizing the informal sector.

Informality pervades urban life in Malawi. The micro, small and medium- enterprise sector, in which some 91% of businesses operate, employs more people than the formal sector. Yet most businesses that operate in the informal sector are neither registered nor regulated and hence do not pay taxes. Their transactions are mostly cash based and-hence outside formal system.

To that end, we just finished a process of rebasing our economy from 2010 base to 2017. The results of the exercise showed that the previous approach to measuring GDP which excluded much the informal sector understated our economy by about one-third.

In addition, rebasing has also improved any economic metrics that use GDP as the

denominator. As a result per capita GDP has risen while our debt stress measured by the share of debt to GDP has fallen.

Strategies for Achieving Economic Transformation

Distinguished Ladies and Gentlemen

In going forward and as presented in our prospective Vision, the National Transformation 2063, we argue that if Malawi is to become an industrialised middle income country, the natural first step is to transform our agriculture.

First, we need to diversify within agriculture and increase agricultural resilience and productivity by reducing reliance on smallholder agriculture, increasing the amount of land under irrigation; increasing the land area under alternative cash crops and adoption of

more agricultural technologies. To this end, government is committed to creation of mega-farms and anchor farms that will spur integrated rural development as well as agricultural productivity.

Second we must pursue industrialization. We are working to put in place policies and strategies that incentivize manufacturing, including mining, so as to increase the share of industrial output in GDP.

Transformation implies that overtime the share of output from the primary sector must decline to the benefit of output from the secondary and tertiary sectors. Unfortunately since the mid-1990s Malawi has witnessed de-industrialisation with the share of industry in GDP falling from around 20 percent to 9 percent of GDP. We are committed to reversing this trend and we are working to actualize a number of

industrial parks and special economic zones and which will include a technology park.

Government is cognizant that the transformation that we envision can only be actualized if we make the requisite investments in economic infrastructure especially energy. That's why efforts are afoot to ensure that in the next five years we double our energy supply through Independent Power Producers, interconnection to the Southern Africa Power Pool and local generation at new Tedzani and Mpatamanga.

Third we must address Urbanization and Tourism. As Malawi hopes to industrialise, we must anticipate rural-urban migration and an urban population boom. We have a two-pronged strategy: first, it is imperative that our urban areas are capacitated to

supply minimum levels of municipal services for existing as well as future populations.

Second, and as stated in the President's State of the Nation Address, we need to attenuate rural-urban migration by creating secondary cities. The Ministry of Economic Planning and Development and Local Government are working on a concept of secondary cities that seek to create growth poles beyond what we have hitherto known as the rural growth centers.

Concluding Remarks

Ladies and Gentlemen

Let me conclude by making three observations

First, while we concede that Malawi remains vulnerable to external and internal

shocks, I submit that we hold the keys to our destiny - a more resilient and prosperous economy. As a shock, COVID-19 has had a devastating economic impact. But I am convinced that in the medium to long term the transformational agenda that this administration has proposed can and will shock-proof the economy from such economic .

Second, I have highlighted three imperatives for your consideration. The growth imperative; the transformational imperative, and the institutional imperative. I invite this conference to address itself to these issues. What should Malawi's future sources of growth be? Into what should we transform and how do we get there? And what reforms of mindset and governance structure can make this a reality?

Third, I have enumerated a number of initiatives that this administration has proposed to undertake to kick-start addressing these imperatives. I invite this conference to have an honest introspection about these proposals and whether they are bold enough to take us where we need be.

Lastly, is a call to action. Malawi has been in this state for far too long. But things don't have to be this way. We need to dispense with a mindset of predestination and identify new sources of growth. I therefore want to challenge this conference to come up with practical solutions that will transform the economy to a more sustainable and resilient structure.

Distinguished Participants, Ladies and Gentlemen

It now my singular honour and privilege to declare the ECAMA 2020 Annual Conference Officially open.

Thank you for your attention.